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SUBJECT: ECLAC ASSESSMENT OF HURRICANE STAN'S DAMAGE TO GUATEMALA
- LOW IN MACROECONOMIC TERMS, HIGH IN HUMAN AND SOCIAL IMPACT

REF: Guatemala 02573

11. SUMMARY. An ECLAC study of the impact caused to Guatemala by Tropical Storm Stan estimates the total damage and losses to be just shy of US\$1 billion (\$983 million) and suggests that while the Storm's impact may have been marginal in macroeconomic terms, the impact was devastating for the thousands of poor and indigenous Guatemalans affected by the Storm and will continue to be so when crop and income losses translate into hunger in the coming months. The report's recommendations for the short-term include the continuing need for emergency food assistance, restoring productive capacity for the most vulnerable and exposed populations, rebuilding housing and closing emergency shelters, and repairing local roads and small irrigation infrastructure to re-start production and allow products to get to market. In the medium-term, the assessment identifies the need to rebuild and establish early warning systems and community-based prevention programs, improve watershed management, and develop Central American regional risk management instruments. END SUMMARY.

STAN'S FINANCIAL AND ECONOMIC IMPACT

12. On November 9, an ECLAC team assisted by experts on loan from the World Bank, IMF, CABEI and various UN agencies, completed its assessment of the damages and economic losses caused to Guatemala by Hurricane/Tropical Storm Stan. (For this Report's purposes, "damage" is the immediate impact, and "losses" are effects over time). The following day, joined by the Ministers of Agriculture and Public Works and other Government of Guatemala (GoG) officials, the ECLAC team presented findings to the international community.

13. The ECLAC Assessment (methodology described on website: www.eclac.cl/mexico under "disastres") opens with the central conclusion that while the macroeconomic impacts of the Stan will be minimal, the livelihoods of the most vulnerable --the country's indigenous, rural and poor-- will be significantly affected. The study estimates overall damages and losses at just under US\$1 billion (\$983 million or 3.4% of the country's 2004 GDP). The economic impact was highest in terms of the country's infrastructure (the Ministry of Public Works reports that 26% of the country's paved roads were affected, 52% of its unpaved roads, 45 bridges, and more than 10,000 homes), followed by damage and losses to the productive sectors, the social sectors (housing, education and health) and the environment, as outlined below:

Guatemala: Summary of Impact
Sector and sub sector
Damage
Losses
Total

Millions of US dollars

Social sectors

148,9
Housing
126,5
Education
8,1
Health
14,2

Productive sectors

215,4
Agriculture
77,8
Industry
56,7
Trade and commerce
80,9
Tourism
53,4

Infrastructure

446,9

Water and drainage
11,9
Electricity
5,1
Transport and communications
430,0
Environment
40,5

Emergency expenses
78,3

TOTAL
983,3

14. The Report notes that the damage from Stan was equivalent to 39% of the country's gross capital formation. While 59% of the damage was to private sector assets, the public sector will face increased expenditures and investments to assist the most directly affected and vulnerable populations (some 475,000, or 4% of the country's population) to rebuild their lost assets and sources of incomes.

15. Guatemalan Central Bank officials suggest that one of the main reasons for the limited macroeconomic impact is that greatest damage was done to subsistence crops that were about to be harvested such as white corn, and to micro-businesses in the country's large informal economy (estimated to be 70% of all economic activity), which make only a small contribution to the GDP. In many cases, harvests for the more important cash crops were already completed before Stan or have more frequent crop cycles than basic grains and will thus rebound more quickly. The Ministry of Agriculture reports that 46% of the damage to the agricultural sector was to basic grains (white corn, beans, and other subsistence crops), 26.4% to export crops, 20% to horticultural products, and 7.6% to fruit and other commodities.

GEOGRAPHIC DISTRIBUTION OF DAMAGE

16. The ECLAC Report notes that the Departments of San Marcos, Escuintla and Solola, in that order, were most affected by Stan. But, in terms of damage as a percentage of contribution to GDP, the greatest economic impacts were to Solola (due to tourism), San Marcos and Retalhuleu. The Ministry of Agriculture assesses agricultural losses to be greatest in Retalhuleu-nearly 40% harder hit than the next most affected department, Escuintla. And finally, in terms of impact per inhabitant, the ranking was different yet again with Retalhuleu the hardest hit, followed by Solola, and Jutiapa.

ENVIRONMENTAL IMPACT

17. The assessment notes that another critical impact of the Storm was to the environment. This included loss of soil due to landslides and the creation of crevices on steep slopes that will aggravate pre-existing environmental fragility and further increase the risk of damage and loss in the face of future events, leading to reduced welfare and postponement of economic growth and attainment of the country's development goals.

THE HUMAN IMPACT-THOSE WHO CAN LEAST AFFORD IT HURT MOST

18. While more than a third of the country's population, or some 3.5 million people, was estimated to have been directly or indirectly affected by Stan, the report notes that "...when departmental and municipal damage and loss distribution is correlated to the indigenous population present in them, it becomes evident that the indigenous population suffered in a disproportionate way, above its statistical presence in the community or the country as a whole." This is particularly significant because the participation of Guatemala's indigenous in the ranks of the country's poor and extremely poor is far above the national average. The Minister of Agriculture also remarked in a recent meeting with Embassy officials that "...this is not an agricultural problem, rather it is a social problem." He said the agricultural losses will be recovered fairly quickly, but "the real problem is that there are 25,000 families who are in a state of shock, abandonment, and despair..." That their loss doesn't have much of an impact on the GDP, he added, is only a confirmation that the people who lost their homes and crops were poor and don't contribute much to the GDP.

19. The Report noted that many self-employed indigenous women -- artisans, weavers and embroiderers, as well as those who depend on cottage industries -- have not only lost their homes but their means of production and, in many instances, their stock of work. The ECLAC team analyzed losses related to the production of embroidered blouses or "huipiles" in four representative departments and concluded that the financial impact was \$5.6 million to the 2,600 households dependent upon this economic activity.

FINANCING THE RECONSTRUCTION EFFORT

110. GoG officials noted that a gap exists between the \$415 million assessment of damages by ECLAC and their own funding estimate for

the National Reconstruction Plan of \$368 million. These officials noted, however, that between a first assignation of \$368 million in 2006 and a complementary amount in 2007, the needs of the reconstruction plan could be fully met; they announced earlier that this funding would come from a mix of GoG budgetary resources, reprogrammed loans and donor assistance, among other sources (see reftel on the GoG national reconstruction plan). The report's recommendations for the short-term include the need to continue with provision of emergency food assistance, restore productive capacity for the mostly highly vulnerable and exposed populations, rebuild housing and close emergency shelters, and repair local roads and small irrigation infrastructure to re-start production and allow products to get to market. Another priority will be to involve the most affected populations in the estimated 17,000 reconstruction jobs that will be needed, and the report recommends that reconstruction efforts be designed to be as labor-intensive as possible. In the medium-term, the assessment identifies the need to rebuild and establish early warning systems and community-based prevention programs, improve watershed management, and develop some Central American regional risk management instruments. The report notes that "Although appropriate risk management has been recognized before --after Mitch--, given the multi-hazard nature of the country's territory there is a need for a more solid and permanent approach to risk reduction."

11. In his presentation to the international community, the Minister of Public Works placed special emphasis on the transparency and accountability measures being built into the reconstruction effort. These measures include the formation of a Transparency Council of respected civil society representatives and government officials to oversee reconstruction expenditures and the use of the internet-based procurement system, GuateCompras.

AN OPPORTUNITY TO REDRESS THE COUNTRY'S HISTORIC INEQUALITY?

12. Many commentators have noted that Stan "exposed" Guatemala's historic inattention to the precarious poverty in which a majority of its mainly indigenous population lives, and highlighted the fact that this population's efforts to scratch out a living damages the environment puts them at greater risk. In terms of income distribution, Guatemala is the third most unequal country in the world, and Stan made clear how such poverty increases a population's vulnerability. The Berger Administration's response shows all the right intentions in terms of addressing these inequalities and the related multicultural issues, but whether it will have sufficient resources or time before it leaves office is an open question. This post-Stan period offers the country and its government a window of opportunity and the international community should be poised to help them to seize it.

WHARTON